

## Audit Report

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## Cash Receipts

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**BALTIMORE COUNTY, MARYLAND  
OFFICE OF THE COUNTY AUDITOR**

**BRIAN J. ROWE, CPA**  
COUNTY AUDITOR

COURTHOUSE - ROOM 221  
TOWSON, MARYLAND 21204  
**410-887-3193**  
**410-887-4621 (Fax)**

**MARY P. ALLEN, CPA**  
DEPUTY COUNTY AUDITOR

October 26, 2000

Honorable Members of the County Council  
Honorable C.A. Dutch Ruppertsberger, III, County Executive  
Baltimore County, Maryland

Gentlemen:

We audited cash receipts collected by the Departments of Permits and Development Management (building, electrical, plumbing and amusement device permits), Public Works (Eastern Sanitary Landfill), Recreation and Parks (Enterprise Facilities), and Aging (Congregate Meals and CountyRide programs) for the fiscal year ended June 30, 1999.

In accordance with the Baltimore County Charter, Section 515, the Office of Budget and Finance is responsible for the administration of the County's finances, including the collection of all revenues and fees. While the majority of the County's revenues are collected directly by the Office of Budget and Finance, certain receipts are collected directly by other County Departments. During fiscal year 1999, collections received by the four Departments referenced in the above paragraph totaled approximately \$9.8 million.

Our audit disclosed that internal control over cash receipts collected at certain locations was inadequate. Specifically, we noted that deposits were not made timely, receipts were not adequately safeguarded against loss or theft, and duties for collecting, depositing and recording cash receipts were not properly segregated.

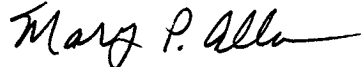
Responses to our audit findings are included as an appendix to this report. Our audit reports and responses thereto are available to the public and may be obtained on-line at "[www.co.ba.md.us](http://www.co.ba.md.us)" or by contacting the Office of the County Auditor, 400 Washington Avenue, Towson, Maryland, 21204.

We wish to express our appreciation to the Departments of Permits and Development Management, Public Works, Recreation and Parks, and Aging for the cooperation and assistance extended to us during our audit.

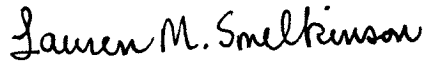
Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Brian J. Rowe".

Brian J. Rowe, CPA  
County Auditor

A handwritten signature in cursive script, appearing to read "Mary P. Allen".

Mary P. Allen, CPA  
Deputy County Auditor

A handwritten signature in cursive script, appearing to read "Lauren M. Smelkinson".

Lauren M. Smelkinson, CPA  
Audit Manager

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## Background Information

In accordance with the Baltimore County Charter, Section 515, the Director of the Office of Budget and Finance "...shall have charge of the administration of the financial affairs of the county, including the collection of...funds of every kind due to the county..." Accordingly, the majority of the County's revenues are collected centrally by the Office of Budget and Finance. However, certain receipts are collected by other County Departments and are either deposited directly into the County's bank account or forwarded to the Office of Budget and Finance for deposit.

During FY 1999, revenues collected by the Departments of Permits and Development Management (PADM), Public Works, Recreation and Parks and Aging totaled approximately \$9.8 million. In order to determine whether internal control was adequate and whether cash receipts were properly recorded and deposited, we selected the following cash receipts for audit:

Department	Type of Receipts	Amount
PADM	Building, electrical, plumbing and amusement device permits	\$3,722,000
Public Works	Eastern Sanitary Landfill	726,889
Recreation and Parks	Enterprise Facilities	660,807
Aging	Congregate Meals and CountyRide	384,121
Total		<u>\$5,493,817</u>

Our audit findings and recommendations follow.

## Findings and Recommendations

### **Department of Permits and Development Management**

The Department of Permits and Development Management administers and enforces various aspects of land development and use in Baltimore County. The Department's activities include code enforcement (e.g., building, electrical, plumbing, fire, zoning and livability codes), development processing (e.g., zoning review, development plans review, land acquisition), and permit and license processing (e.g., building, electrical and plumbing permits, amusement device permits, animal licenses). During FY 1999, fees, fines and other revenues collected directly by the Department totaled approximately \$7,721,190. While most of the Department's revenues were collected at its Towson office, permit and license fees were also collected by authorized agents at auxiliary locations throughout the County. We audited cash receipts related to building, electrical, plumbing and amusement device permits totaling \$3,722,000 during FY 1999. Our audit disclosed that internal control was inadequate. Specifically, we noted the following deficiencies:

#### **1. Safeguarding of Assets**

- a. Cash receipts for building, electrical and plumbing permits were not adequately safeguarded against loss or theft.**

Although pre-numbered cash receipt forms were prepared for all collections for permits and licenses issued, our audit disclosed that the receipt forms were not always prepared promptly upon receipt of payment. Additionally, collections were stored in an unsecured and unlocked file cabinet until the related applications were processed. Finally, the pre-numbered cash receipt forms were not periodically accounted for and reconciled to the permits and licenses issued. Consequently, there was a lack of assurance that all cash receipts were properly recorded and deposited.

**To improve internal control, we recommend that pre-numbered cash receipt forms be issued promptly upon receipt of payment and that the related collections be properly safeguarded until deposited. We further recommend that the pre-numbered cash receipt forms be periodically accounted for as to issued, void or on-hand and be reconciled to the permits and licenses issued; these procedures should be performed by an employee independent of the cash receipt and permit and license issuance functions.**

- b. Cash receipts for permit and license fees collected at an auxiliary location were not deposited intact or properly accounted for.**

As previously commented, permit and license fees were collected by authorized agents, including 15 Baltimore County Public Library branches and one private merchant. During FY

1999, permit and license fees collected at these auxiliary locations totaled \$573,773 of which \$528,302 was collected at one location (i.e., the private merchant). Our audit disclosed that cash receipts collected by the private merchant were not deposited intact. Specifically, management fees were deducted prior to depositing the collection directly into the County's bank account. Further, the Department did not account for the numerical sequence of permits issued by the agent or reconcile the permits issued to the amounts deposited. Consequently, there was a lack of assurance that all collections for permits and licenses issued by the agent were deposited.

**To improve internal control, we recommend that all cash receipts be deposited intact. We further recommend that the Department account for the numerical sequence of permits issued and reconcile the permits issued to the amounts deposited.**

## **2. Cash Receipts Procedures**

**The Department has not established written policies and procedures for processing cash receipts related to the issuance of permits and licenses.**

Although the Office of Budget and Finance has issued procedures for processing cash receipts collected directly by various County Departments, these procedures do not contain specific policies pertaining to each Department's cash receipt operations. Our audit disclosed that the Department of Permits and Development Management did not have specific written policies and procedures for cash receipts related to the issuance of building, electrical and plumbing permits. Consequently, the Department lacked assurance that cash receipts were processed in a proper and consistent manner. For example, our audit disclosed that pre-numbered cash receipt forms were not always properly completed.

**To improve internal control, we recommend that the Department establish written policies and procedures for processing cash receipts related to the issuance of permits and licenses.**

## **Department of Recreation and Parks**

The Department of Recreation and Parks collects and deposits all fees charged for its enterprise operations (i.e., Oregon Ridge Lodge/Park & Beach, Loch Raven Fishing Center, Rocky Point Beach & Park, and Miami Beach & Park) as well as fees charged for other activities (e.g., rental of tenant houses and portable stages). During FY 1999, fees collected by the Department for all activities totaled \$681,743, of which \$660,807 related to the Department's enterprise operations. Our audit of the enterprise operations cash receipt procedures disclosed the following:

### **3. Timeliness of Deposits**

**Bank deposits were not made on a timely basis in accordance with established**

**policies and procedures.**

Our test of 66 cash receipts (over \$250 per week) totaling \$35,357 disclosed that in 18 instances (27%), receipts totaling \$6,132 were not deposited timely (i.e., 2 to 8 business days after collection). The Office of Budget and Finance's cash receipt procedures require daily deposits by non-centralized facilities when collection activity exceeds \$250 per week and weekly deposits when activity is less than \$250 per week.

**To help ensure that collections are properly safeguarded, we recommend that cash receipts be deposited timely in accordance with the Office of Budget and Finance's established policies and procedures.**

### **Department of Aging**

The Department of Aging collects fees related to various programs and activities, including Congregate Meals, CountyRide, Senior Expo, and Senior Digest. During FY 1999, the Department collected revenues totaling \$651,483 for all activities. Our audit of cash receipts collected by the Congregate Meals and CountyRide Programs, which totaled \$384,121 during FY 1999, disclosed that internal control was inadequate. Specifically, we noted the following deficiencies:

#### **4. Segregation of Duties**

**The individual responsible for collecting and recording daily cash receipts was also responsible for making the related deposit. In addition, there was no independent verification that all collections were deposited.**

The individual responsible for collecting and recording daily cash receipts and issuing ticket booklets at the CountyRide Towson Office was also responsible for preparing bank deposits and reconciling the related accounting records. Additionally, at the nine Congregate Meal locations tested, cash receipt reports were not reconciled to the related bank deposits by an employee independent of the cash receipt and deposit functions. Consequently, there was a lack of assurance that all collections were deposited.

**We recommend that the employee responsible for collecting and recording cash receipts not be responsible for preparing and making the related deposits. We further recommend that an employee independent of the cash receipt and deposit function reconcile the amounts collected with the amounts deposited. We advised the Department how to accomplish this separation of duties using existing personnel in each location.**

#### **5. Timeliness of Deposits**

**Cash receipts were not deposited in a timely manner in accordance with established policies and procedures. Additionally, cash receipts were not properly safeguarded**



**prior to deposit.**

The Congregate Meals Program's policies and procedures require daily deposits of contributions received whenever such collections aggregate in excess of \$25; however, weekly deposits are required regardless of the amount collected. Our test of 186 deposits of participant contributions collected at 9 Congregate Meal locations disclosed that in 57 instances (31%) aggregate contributions ranging from \$26 to \$171 were not deposited until 2 to 10 business days after collection.

Daily deposits for the CountyRide Program were required for locations with collection activity exceeding \$250 per week and weekly deposits were required for those with activity less than \$250 per week in accordance with Office of Budget and Finance's procedures. Our test of 97 CountyRide daily receipts (ranging from \$12 to \$180 each) at 7 locations disclosed that in 24 instances (25%) collections were deposited more than one week (up to 12 business days) after receipt. Further, cash receipts were not properly safeguarded prior to deposit. Specifically, we noted that cash receipts were stored in an unsecured and unlocked area until deposited.

**We recommend that the Department comply with established policies and procedures by depositing all cash receipts in a timely manner. We further recommend that daily collections be properly safeguarded until deposited.**

During our audit of cash receipts, the following matters came to our attention which we believe warrant mention in this report.

## **Department of Permits and Development Management**

### **6. Permit Approval Procedures**

- a. Computer access for automated permit approvals was not limited to authorized personnel.**

Permits and licenses may be approved by authorized personnel manually or by using the Department's automated on-line approval process. However, our audit disclosed that unauthorized personnel had unlimited and unrestricted access to the on-line approval process. Consequently, the Department lacked assurance that all permits were approved by authorized personnel.

**To improve internal control, we recommend that computer access to the on-line approval process be restricted to authorized personnel.**

- b. Professional license verifications were not documented.**

Verification of an applicant's professional license is required for plumbing and electrical permits

prior to issuance. Our audit disclosed no evidence that the professional license verifications were performed. Consequently, the Department lacked assurance that plumbing and electrical permits were issued to qualified individuals.

**To improve internal control, we recommend that verification of professional licenses be properly documented.**

## **Department of Recreation and Parks**

### **7. Admissions/Amusement Taxes**

**Admissions/amusement taxes were not levied on the approved fee schedule for use of the Department's enterprise facilities.**

The Baltimore County Code, Section 33-351 requires a tax to be "...levied and imposed at a rate of ten (10) percent of the gross receipts of any person, firm or corporation obtained from any admissions or amusement charge within the County..." The admissions/amusement taxes are required to be remitted to the State. (Annotated Code of Maryland, Tax-General Article, Sections 4-201 and 4-301). Although the Department intended to levy the admissions and amusement taxes on the approved fee schedule for the Department's enterprise facilities, our audit disclosed that the taxes were not levied. Consequently, during FY 1999, admissions and amusement taxes totaling \$22,600 which were remitted to the State as required by law, were not recovered from patrons using the enterprise facilities.

**We recommend that the Department levy the admissions/amusement taxes on the approved fee schedule for the Department's enterprise facilities.**

## **Audit Scope, Objectives and Methodology**

We audited cash receipts collected directly by the Departments of Permits and Development Management (building, electrical, plumbing and amusement device permits), Public Works (Eastern Sanitary Landfill), Recreation and Parks (Enterprise Facilities), and Aging (Congregate Meals and CountyRide programs) for the fiscal year ended June 30, 1999. The audit was conducted in accordance with generally accepted government auditing standards.

In accordance with the Baltimore County Charter, Section 311, the objectives of our audit were to determine that cash receipts were properly recorded and deposited and to evaluate the adequacy of internal control practices and procedures. In planning and conducting our audit, we primarily focused on certain cash receipts collected directly by the four aforementioned Departments based on assessments of materiality and risk. Our audit did not include the cash receipts collected directly by the Office of Budget and Finance or other County Departments not mentioned above.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Departments' operations, including a review and test of the system of internal control. We also tested transactions and performed other auditing procedures as we considered necessary in the circumstances to achieve our objectives.

Management is responsible for establishing and maintaining effective internal control for cash receipts. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records and safeguarding of assets are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports on fiscal compliance are designed to assist the Baltimore County Council in exercising its legislative oversight function and to provide constructive recommendations for improving County operations. As a result, our reports do not address activities we reviewed that may be functioning properly.

This report includes findings and recommendations relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect the ability to maintain reliable financial records and safeguard assets. This report also includes findings and recommendations relating to instances of noncompliance with applicable policies or procedures, as well as matters that came to our attention that were not directly related to the audit objectives.

<p><b>BALTIMORE COUNTY, MARYLAND</b> <b>INTER-OFFICE CORRESPONDENCE</b></p>
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TO: Brian J. Rowe, County Auditor

FROM: Fred Homan, Director, Office of Budget & Finance  
Arnold E. Jablon, Director, Dept. of Permits & Development Manage.  
Charles L. Fisher, Director, Dept. of Aging  
John F. Weber, Director, Dept. of Recreation & Parks

DATE: October 10, 2000

SUBJECT: Draft report on your fiscal/compliance audit of cash receipts

Thank you for the opportunity to comment on your recent fiscal/compliance audit of cash receipts. We are always looking for better and safer ways to administer the cash receipts that we are responsible for in Baltimore County.

Department of Permits and Development Management

- 1(a). Cash receipts for building, electrical and plumbing permits . . . it is agreed that your recommendation is sound and we will review our procedures and manpower to determine whether it can be implemented.
- 1(b). Cash receipts for permit and license fees collected at an auxiliary location . . . it is agreed that the cash receipts collected by the private merchant should be deposited intact and that his management fee should be paid by the County after the deposit.
2. Cash Receipts Procedures - the Office of Budget and Finance's procedures for processing cash receipts will be reviewed to determine whether it is necessary to develop specific written policies and procedures for the Department of Permits and Development Management.

Department of Recreation and Parks

3. Timeliness of Deposits - in reviewing the specific comments it was found that in the three (3) instances (Rocky Point 5/30/90, Loch Raven Fishing Center 10/17/98, 5/15/99) the appearance of late deposits was a result of the banks being closed (Sunday/holidays). These deposits totaled \$8,459.85 or 54% of the receipts in question. The Office of Budget and Finance's established policies and procedures have been once again distributed and reviewed with the responsible staff.

Department of Aging

4. Segregation of Duties - the Department of Aging will segregate duties between the Fiscal Clerk and the Office Assistant. One will be responsible for sales and issuance of tickets and the other for the preparation and making of deposits. Monthly reconciliations will be made independently of the Fiscal Clerk and the Office Assistant. Also, a safe and a combination lock for the storage closet has been installed to safeguard tickets, vouchers and cash on hand.

At the congregate meal locations, all fiscal activities are processed by volunteers. The Department of Aging will attempt to secure additional volunteers at each site to ensure the proper segregation of duties.

5. Timeliness of Deposits - Safes have been purchased at all senior centers to ensure the safeguarding of all cash and County Ride tickets that are held overnight. Training has been scheduled to familiarize current employees and volunteers with the department's policy on cash management.

Other Matters

6. Department of Permits and Development Management - Computer Access and Permit Approval Procedures - internal control procedures for

Brian J. Rowe, County Auditor

October 10, 2000

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issuing permits and the limitation of computer access to specific on-line approval fields will be reviewed to determine whether or not these changes would be in the best interest of the County.

7. Department of Recreation and Parks - Admissions/Amusement Taxes - during an internal review conducted in autumn 1999, this error was uncovered. Effective for the 2000 season, admission, amusement tax was levied on the approved fee schedule. Attached is a copy of the prices showing the fee included.

/jdo

# DAILY ADMISSION

Adults	weekend/holiday (\$6.00 plus 10% admission/amusement tax).....	\$6.60
Adults	weekdays (\$5.00 plus tax).....	\$5.50
Children	11 & under (\$2.00 plus tax) .....	\$2.20
Seniors	62 & over (\$3.00 plus tax) .....	\$3.30

- Season Passes Available -

Baltimore County Department of Recreation and Parks